

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION FOR ADJUSTMENT OF ELECTRIC)	
RATES OF KENTUCKY POWER COMPANY)	CASE NO. 91-066

O R D E R

IT IS ORDERED that Kentucky Power Company ("Kentucky Power") shall file the original and 12 copies of the following information with the Commission by May 24, 1991, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

1. On page 216 of Kentucky Power's 1990 Annual Report ("Annual Report") is a schedule describing Construction Work in Progress ("CWIP") projects as of year end. For each of the

projects listed below, provide a detailed description of the project, the percentage of completion as of the end of 1990, and the estimated completion date:

- a. Construct Ashland Service Building.
- b. Construct Hatfield-Sprigg 138kv Line.
- c. Construct Hatfield 138kv Station.
- d. Replace Poles-Beaver Creek-Sprigg 138kv Line.

2. On page 216 of the Annual Report, it is indicated that \$3,542,042 was spent on minor projects costing \$100,000 or less. Provide a listing of each project included in the \$3,542,042 total.

3. On page 221 of the Annual Report is a schedule of Nonutility Property as of year end. For each transfer to the Nonutility Property account during the test year, explain the nature of the transfer and why this property should be considered nonutility.

4. On page 261 of the Annual Report is a reconciliation of reported net income with taxable income for federal income taxes. Included in the reconciliation is an adjustment for \$7,587 which reflects the allocation of the estimated current year net operating tax loss of the American Electric Power Company, Inc. ("AEP"). Explain how Kentucky Power has treated this reconciling adjustment for rate-making purposes.

5. Provide an explanation as to how income tax advantages enjoyed by AEP resulting from the treatment of employee stock option plans and other corporate tax savings are passed on to Kentucky Power and its ratepayers.

6. On page 335 of the Annual Report is a schedule of charges included in Miscellaneous General Expenses. Provide a description of the charge identified as "Interest Cost on AEP Borrowed Capital."

7. In Section IV of Kentucky Power's application, pages 14 and 15 of 21, is an analysis of federal income taxes. Included in the analysis are listings of deferred federal income taxes and Investment Tax Credits ("ITC") net of feedback. For each item shown, starting with line 8 and continuing through line 57, provide the following information:

a. A brief description of the item, including the circumstances necessitating the item.

b. The deferred federal income tax before adjustment for feedback. Include all calculations, workpapers, and assumptions used which support the amount.

c. The deferred federal income tax feedback amounts. Include all calculations, workpapers, and assumptions used which support the amounts.

d. The ITC adjustments before the adjustment for feedback. Include all calculations, workpapers, and assumptions used which support the amount.

e. The ITC adjustment feedback amounts. Include all calculations, workpapers, and assumptions used which support the amounts.

8. Section V, Schedule 3 of the application shows Kentucky Power's capitalization as of test-year end. Provide a detailed explanation as to why Kentucky Power believes it is appropriate to

remove its proposed coal stock adjustment solely from short-term debt.

9. Section V, Workpaper S-3, page 3 of 3 of the application contains the coal stock adjustment proposed by Kentucky Power. Provide the following information concerning the data shown on this workpaper:

a. The calculations, workpapers, or documentation which support the daily burn rate of 6,557 tons per calendar day.

b. The calculations, workpapers, or documentation which support the test-year end price of coal per ton of \$27.33.

c. Explain in detail why Kentucky Power at test-year end had 118 days supply of coal on hand at the Big Sandy Plant.

10. Concerning the current coal contract with the United Mine Workers of America ("UMWA"):

a. Indicate whether the UMWA exercised its option to reopen the contract prior to the February 1, 1991 anniversary date.

b. If the UMWA did not exercise the reopen option available in 1991, explain in detail why Kentucky Power feels it is necessary to use a 75 day supply in the calculation of the proposed coal stock adjustment instead of the median target level of 65 days supply.

11. Section V, Workpaper S-4, page 1 of the application contains the calculation of Kentucky Power's proposed adjustment to postage expense. Provide the following information:

a. A breakdown of the total mailings of 2,060,010 between bills, notices, and letters.

b. The actual postage rates for bills, notices, and letters as of test-year end.

c. The actual postage rates for bills, notices, and letters as of February 3, 1991.

12. Section V, Workpaper S-4, page 3 of the application contains the calculation of Kentucky Power's annualization of wage and salary increases. Provide the following information:

a. All workpapers and documentation which support the amounts shown in column 1 - "Increase Granted."

b. For each month shown on this workpaper, indicate by month how many employees received the indicated wage and salary increases.

13. The response to Item 17(d), sheet 2 of 2 of the March 20, 1991 Order, indicates that there are five classifications of employees at Kentucky Power. For each classification of employee, provide the following information concerning the last complete pay period in the test year:

a. The time period covered by the pay period.

b. The number of employees who were paid.

c. The total payroll which was expensed, exclusive of overtime and shift premiums.

d. The total payroll which was capitalized, exclusive of overtime and shift premiums.

e. The total overtime paid, separating time and one half pay from double time pay. Indicate the amounts capitalized.

f. The total shift premium paid, showing the second shift premium, third shift premium, and Sunday shift premiums

separately. Indicate the amounts capitalized.

In addition, indicate the number of pay periods in the test year.

14. Based on the information requested in the prior question, indicate the number of employees, by classification, whose annualized last pay period payroll would exceed the FICA maximum base pay of \$53,400. Indicate, by classification, the amount the annualized last pay period payroll would exceed the \$53,400 base.

15. Section V, Workpaper S-4, page 4 of the application contains Kentucky Power's annualization of insurance costs. For the medical, the life insurance, the dental, and the retirement plans, provide the following information:

a. Explain how the monthly cost was determined. Include any workpapers, calculations, or documents which support this figure.

b. Identify the month of the test year the monthly cost shown on this workpaper represents.

c. Indicate the number of employees covered by the monthly cost.

16. Kentucky Power's Benefit Plans are discussed in the Notes to Financial Statements on page 123-E of the Annual Report. Provide the following information:

a. Explain why the net pension costs increased from \$218,000 in 1989 to \$555,000 in 1990.

b. Discuss the impact of Financial Accounting Standards Board ("FASB") Opinion No. 87 on Kentucky Power's recording of pension related costs during the test year. Include

a discussion of the anticipated annual cost impact resulting from the implementation of FASB Opinion No. 87.

c. Explain the contribution of \$760,000 to a voluntary employee beneficiary association during 1990. Indicate how the \$760,000 was accounted for by Kentucky Power.

d. Discuss what impacts of FASB Opinion No. 106 are reflected in this rate case.

17. Provide a detailed explanation of how the expense percentage of 82.3 percent was determined. Include any workpapers, calculations, or documents which support this percentage.

18. Section V, Workpaper S-4, page 6 of the application contains Kentucky Power's annualization of the savings plan costs. Provide the following information:

a. Explain in detail how the savings plan functions, including a description of the eligibility requirements for participation in the plan and how the plan contributions are determined. Include a copy of any narrative provided to Kentucky Power employees explaining the savings plan.

b. The calculations, workpapers, or documents which support the amounts shown as "Base Payroll Test Year Ended 12/31/90" and "Contributions Test Year Ended 12/31/90."

19. Section V, Workpaper S-4, page 7 of the application contains Kentucky Power's annualization of property taxes. Provide all calculations, workpapers, or documentation which support the estimated property taxes shown as \$4,107,031 and \$36,653.

20. Section V, Workpaper S-4, page 8 of the application shows Kentucky Power's proposed adjustment to depreciation expense. Provide the workpapers and calculations which support the amounts shown as "Electric Plant in Service."

21. Section V, Workpaper S-4, page 10 of the application shows the proposed adjustment to amortize the cost of Kentucky Power's management audit. Provide the following information:

a. The calculations, workpapers, or documents supporting the reported total cost of the management audit of \$412,814.

b. Explain in detail why Kentucky Power is proposing to amortize this cost over a two-year period.

22. Section V, Workpaper S-4, page 11 of the application shows the proposed adjustment for rate case expenses. Provide a detailed explanation concerning why Kentucky Power is proposing to amortize the rate case costs over a two-year period.

23. The information provided in the response to Item 48 of the March 20, 1991 Order did not provide all of the information requested. Kentucky Power was to provide copies of any invoices, contracts, or other documentation which supported charges incurred or to be incurred in the preparation of the rate case. Provide the requested documentation.

24. Provide monthly updates of the actual rate case costs incurred by Kentucky Power. The updates should provide the same detail as was requested in Item 48 of the March 20, 1991 Order. The updates should be filed during each month of this proceeding, through and including the month of the public hearing. The

updates should be filed by the 20th of the month following the reporting month.

25. Section V, Workpaper S-4, page 12 of the application contains the proposed adjustment to annualize lease costs. Provide the following information:

a. A schedule of all leases included in the test-year expense of \$2,015,088. The schedule should identify each lease, the item(s) leased, the lessor, the terms and conditions of each lease, the monthly lease charge, and the inception date of each lease. Identify capitalized and operating leases separately.

b. The calculations, workpapers, or documentation which support the monthly cost of \$183,030.

c. Explain why the wage and salary allocation rate has been used to allocate the lease costs to operation and maintenance expense.

26. Section V, Workpaper S-4, page 14 of the application shows Kentucky Power's normalization of storm damage expense. Provide the following information:

a. Explain why Kentucky Power has used the Handy-Whitman Contract Labor Index to adjust the calendar year expenses to 1990 constant dollars. Include a description of how the index is computed and what the index values represent.

b. Explain why Kentucky Power is proposing to use a five-year average in determining the normalized storm damage expense.

c. A schedule of the actual storm damage expense excluding in-house labor for each year from 1981 through 1985.

Include the constant dollar index values appropriate to restate these costs in 1990 amounts.

27. Section V, Workpaper S-4, page 15 of the application shows Kentucky Power's proposed adjustment to include the interest expense on customer deposits as an operating expense. Provide the following information:

a. Explain why unclaimed deposits are not subject to interest and how Kentucky Power accounts for unclaimed deposits.

b. Explain why the total test-year customer deposits, including the unclaimed deposits, was included in the determination of Kentucky Power's rate base while the unclaimed deposits were excluded from the determination of the interest expense adjustment.

28. Section V, Workpaper S-4, page 16 of the application shows the proposed adjustment to include the interest income on temporary cash investments as operating revenues. Provide the calculations and workpapers which show the determination of the test year income of \$62,052.

29. Section V, Workpaper S-4, page 18 of the application shows the proposed interest synchronization adjustment. Explain whether the interest on customer deposits is included in the "Interest per Books" shown on line 8.

30. Section V, Workpaper S-4, page 28 of the application shows the proposed coal stock adjustment to rate base and capitalization. Provide the following information:

a. Explain in detail why Kentucky Power has not proposed any adjustments to operating expenses related to the reduction in coal inventory.

b. A schedule of all test-year operating expenses related to the handling, processing, and storing of the coal inventory. The listing should include the account number and title of each affected operating expense. For each listed expense, indicate the impact a reduced coal inventory would have on the level of expense.

31. Section V, Schedule 15 of the application presents Kentucky Power's calculation of its working capital requirement. Provide the following information:

a. Explain why Kentucky Power has used the test-year end actual balances for materials and supplies and prepayments in computing the requirement, rather than using a 12 or 13-month average.

b. Explain what is meant by "Add Back System Sales - Demand and Energy Related." Include the reason(s) for including these two items in the calculation of the working capital requirement.

32. Section V, Schedule 16 and Workpaper S-16 of the application contain calculations involving CWIP and Allowance for Funds Used During Construction ("AFUDC"). Provide a detailed explanation of how Schedule 16 and Workpaper S-16 are related.

33. Section V, Schedules 5 through 19 and the last page of the application make reference to several jurisdictional allocation factors. Provide the following information:

a. All calculations, workpapers, and documents which indicate how the various jurisdictional allocation factors were determined.

b. Copies of any studies or analysis performed which reviewed the reasonableness or adequacy of the allocation factors used in this rate case.

c. Indicate how frequently the jurisdictional allocation factors are reviewed for updating.

d. A listing of all jurisdictional allocation factors in use as of test-year end along with the jurisdictional factors previously in use. Explain the reason(s) for each change in the factors.

e. Indicate when each of the jurisdictional allocation factors used in this rate case were first placed into use by Kentucky Power.

34. All of Kentucky Power's common stock is owned by AEP. In addition, certain services are obtained from AEP Service Corporation ("Service Corporation"). Provide the following information:

a. Describe the accounting internal controls and procedures in place at Kentucky Power which are designed to minimize the potential for the cross-subsidization of or by Kentucky Power.

b. Copies of any policies, procedures, or other documents which provide guidance to minimize the possibility of charges being recorded on Kentucky Power's books and records which

properly should be recorded by AEP, other AEP utilities, or the Service Corporation.

c. Describe the policies and guidelines in place at Kentucky Power governing inter-company transactions between it and AEP, other AEP utilities, or the Service Corporation.

d. A schedule of all test-year inter-company transactions with a recorded cost of \$50,000 or more. The schedule should show the date of the transaction, the selling company, the purchasing company, the cost of the transaction, a brief description of the transaction, and the valuation method used to price the transaction. This schedule should reflect the applicable transactions by Kentucky Power as either the selling or purchasing company.

e. Describe the policies and procedures in place at Kentucky Power governing the transfer of management personnel between it and AEP, other AEP utilities, or the Service Corporation.

f. A schedule indicating the number of management personnel who transferred to or from Kentucky Power and AEP, other AEP utilities, or the Service Corporation during the test year. Transferring individuals do not need to be identified by name, but indicate the position filled or vacated by the transfer.

g. Describe what control AEP has over the determination of the capital structure of Kentucky Power.

h. Describe what control AEP has over the dividend policies of Kentucky Power.

i. Describe what control AEP has over Kentucky Power's ability to raise needed capital. Include with this description an indication of whether Kentucky Power can issue preferred stock.

j. Indicate whether Kentucky Power has guaranteed a debt issue of AEP, other AEP utilities, or the Service Corporation. Include all terms and conditions of any such guarantee.

k. Describe the policies and procedures in place which prevent Kentucky Power from becoming the employer or purchaser of last resort of a failed or troubled AEP-affiliated venture.

l. A schedule of the allocation factors used to allocate common costs between AEP and Kentucky Power, other AEP utilities and Kentucky Power, and the Service Corporation and Kentucky Power. The schedule should reflect the allocation factors in use as of test-year end, the factors previously in use, and the reason(s) for the change in factors.

35. Provide a schedule showing the costs allocated to Kentucky Power from either AEP or the Service Corporation during the test year. The schedule should show each affected account number and include a general description of basis used to allocate the cost.

36. AEP's plans concerning its member companies involvement with the Electric Power Research Institute ("EPRI") are discussed on page 6 of Anthony J. Ahern's testimony. Provide the following information:

a. Indicate when Kentucky Power plans to join EPRI.

b. Indicate whether AEP plans to become a member of EPRI separately from its eight operating companies.

c. Explain whether Kentucky Power could receive the benefits from EPRI if it was not a member but AEP was.

d. A schedule listing each of the eight operating companies and the regulatory commissions having jurisdiction over the eight companies. For each company, indicate whether the authorization to join EPRI has been proposed, the status of the proposal as of the date of this Order, and what restrictions if any have been placed on authorizations granted.

37. Exhibit AJA-1 to Mr. Ahern's testimony contains the EPRI Contract Planned Expenditures by Technical Division for the period 1989 through 1991. Based on the breakdown of planned expenditures for 1991, approximately 20.8 percent of EPRI's planned expenditures relate to nuclear power. Provide a detailed explanation describing why expenditures relating to nuclear power research should be included in the rates paid by Kentucky Power ratepayers, given Kentucky's statutory restrictions on nuclear power.

38. According to page 353-A of the Annual Report, Kentucky Power recorded research and development charges totaling \$127,934 during the test year. Provide a detailed explanation concerning the impact Kentucky Power's joining EPRI would have on this expenditure level.

39. Concerning the test-year research and development charges, indicate the portion of the charges which reflect the allocation of costs originally incurred by AEP, other AEP

utilities, or the Service Corporation. Indicate the account number Kentucky Power recorded these allocations in.

40. On page 4 of Edward L. Berginnis' testimony is discussed an adjustment to Kentucky Power's capitalization relating to the Franklin Real Estate Company ("Franklin"). Provide the following information:

a. A general description of the land held by Kentucky Power in the name of Franklin. Include a description of what Kentucky Power's plans are for the use of this land.

b. Indicate how Franklin is an affiliated company with Kentucky Power.

c. While Mr. Berginnis' testimony has described this adjustment to capitalization, there is no reference to a corresponding adjustment for Franklin referenced in his testimony for rate base. Explain why a corresponding adjustment to rate base has not been included.

41. On page 17 of Errol K. Wagner's testimony is a discussion of the calculation of the proposed EPRI dues adjustment. Exhibit EKW-4 of Mr. Wagner's testimony contains the actual calculation of the adjustment. Provide the following information:

a. The workpapers or documentation which support the rate per KWH and rate per revenue as shown on Exhibit EKW-4.

b. Explain why line 8 on Exhibit EKW-4 indicates the final EPRI dues are 80 percent of the total of the sales and revenue portions of the EPRI dues calculation.

c. Explain whether Kentucky Power will be required to pay the full EPRI dues indicated in its proposed adjustment when it joins EPRI or if there is a phase-in period concerning the dues assessed member utilities.

d. If there is a phase-in period, explain why Kentucky Power has proposed an adjustment reflecting the full membership dues rather than reflecting the phase-in.

42. Pages 17 and 18 of Mr. Wagner's testimony discuss Kentucky Power's proposed adjustments relating to the implementation of Management Audit Action Plan ("MAAP") recommendations number 7 and 25 during the test year. Provide the following information:

a. Concerning the Plant Information Management System ("PIMS"), indicate whether Kentucky Power purchased or leased the needed computer equipment. Include a description of the accounting entries made by Kentucky Power.

b. Copies of the lease agreements for the PIMS computer equipment. Include a description of all terms and conditions of the leases. Indicate whether these are capital or operating leases.

c. All calculations, workpapers, and documents supporting the amounts shown on Exhibit EKW-11, concerning the Sprigg area work.

d. Indicate whether the ten additional employees added by Kentucky Power relating to the Sprigg area work have been included in Kentucky Power's wage and salary adjustment.

43. The response to Item 7 of the March 20, 1991 Order did not provide all the requested information. Specifically, the operation and maintenance expense accounts did not reflect all expense accounts used by Kentucky Power during the test year. Provide the requested trial balance information concerning the operation and maintenance expenses.

44. Concerning the response to Item 13 of the March 20, 1991 Order, for each of the utility plant accounts listed below, explain the reason for the change in the account balance between December 31, 1989 and the test year end:

- a. Account No. 312, Boiler Plant Equipment, page 2 of 7.
- b. Account No. 314, Turbogenerator Units, page 2 of 7.
- c. Account No. 353, Station Equipment, page 3 of 7.
- d. Account No. 355, Poles and Fixtures, page 3 of 7.
- e. Account No. 356, Overhead Conductors and Devices, page 3 of 7.
- f. Account No. 362, Station Equipment, page 4 of 7.
- g. Account No. 364, Poles, Towers and Fixtures, page 4 of 7.
- h. Account No. 365, Overhead Conductors and Devices, page 4 of 7.
- i. Account No. 368.10, Line Transformers and Devices, page 4 of 7.
- j. Account No. 370, Meters, page 5 of 7.
- k. Account No. 390, Structures and Improvements, page 5 of 7.

1. Account No. 392.10, Transportation Equipment - Auto, page 6 of 7.

45. A review of the responses to Item 17(a) and 17(b) of the March 20, 1991 Order indicates the following problems:

a. Kentucky Power has provided the requested information on only the operation and maintenance expense accounts. Information on accounts such as depreciation expense, amortization expense, and the various tax accounts was not included. The request asked for the information on all operating expense accounts.

b. In Item 17(a) the full account numbers were not visible on several pages of the response.

c. In Item 17(b) the account titles were missing on several expense accounts.

Provide the information originally requested in Item 17(a) and 17(b) of the March 20, 1991 Order for all operating expense accounts. Provide another copy of the information provided in the response to Item 17(a) which shows all account numbers and titles of operating expense accounts used by Kentucky Power.

46. A review of the response to Item 17(a) of the March 20, 1991 Order shows expense accounts using a 600-series account number. The Uniform System of Accounts for Electric Utilities ("USoA") does not contain 600-series account numbers. Provide a schedule matching each 600-series account to its corresponding USoA account number.

47. Concerning the response to Item 17(a) of the March 20, 1991 Order, for each of the expense accounts listed, explain the

change in the account balance between December 31, 1989 and the test year end:

- a. Other Fuel Expenses, page 2 of 52, entry number 7.
- b. Other Fuel Expense - F/CST Def., page 3 of 52, entry number 1.
- c. Cnv. Struct. 1 thru 4, page 7 of 52, entry number 10.
- d. First R/Htg. & Head-Ul, page 8 of 52, entry number 3.
- e. Chemical Cleaning-Ul, page 8 of 52, entry number 6.
- f. Untitled Account, page 9 of 52, entry number 3.
- g. Turb. Thr. Valve-Main-Ul, page 10 of 52, entry number 8.
- h. Untitled Account, page 10 of 52, entry number 10.
- i. Purchased Power-AEP Generating Co., page 14 of 52, entry number 1.
- j. Purchased Power-Tennessee Valley Authority, page 14 of 52, entry number 2.
- k. Purchased Power-Duke Power Co., page 14 of 52, entry number 4.
- l. Purchased Power-Commonwealth Edison Co., page 14 of 52, entry number 7.
- m. Purchased Power-Public Service Indiana, page 14 of 52, entry number 9.
- n. Purchased Power-Cincinnati Gas & Electric Co., page 15 of 52, entry number 8.

- o. Interchange Pwr-In-Sys-Acct., page 16 of 52, entry number 6.
- p. Interchange Pwr-Out-Sys-Acct., page 16 of 52, entry number 7.
- q. Interchange Power-Out - AEP Generating Co., page 21 of 52, entry number 2.
- r. Station Expenses, page 22 of 52, entry number 3.
- s. Tram of Elec/Other-AEP Sys. Agr., page 22 of 52, entry number 5.
- t. Mt. Station Transformer, page 24 of 52, entry number 3.
- u. Tree Trimming, page 32 of 52, entry number 1.
- v. Tree Removal, page 32 of 52, entry number 2.
- w. Reclearing, page 32 of 52, entry number 3.
- x. Ground Spraying, page 32 of 52, entry number 5.
- y. Maint. Ovhd. Cdrs/Devc., page 32 of 52, entry number 8.
- z. Maint. Line Transf/Devc., page 33 of 52, entry number 4.
- aa. Other General Salaries, page 42 of 52, entry number 1.
- ab. Out Srv. Emp-AO, page 44 of 52, entry number 3.
- ac. Other Per. Inj/Prop. Dam., page 45 of 52, entry number 5.
- ad. Ret. Plan Contributions, page 45 of 52, entry number 8.

ae. Group Medical Ins. Prem., page 46 of 52, entry number 1.

48. Concerning the response to Item 17(b) of the March 20, 1991 Order, page 4 of 4, provide a detailed explanation as to why Account No. 912, Demonstrating and Selling Expenses, increased significantly in the test year when compared to the expenses recorded in 1989. Include a description of the types of expenses Kentucky Power has recorded in this account.

49. Concerning the response to Item 17(c) of the March 20, 1991 Order, page 3 of 3, provide a detailed explanation of why Kentucky Power's overtime charges increased 27.0 percent between 1988 and 1989 and 25.5 percent between 1989 and test year end.

50. Concerning the response to Item 17(d) of the March 20, 1991 Order, page 2 of 2, provide the following information:

a. A narrative description of the performance based merit plan available to the exempt employees. The narrative should identify all the details of the plan. Include a copy of any material provided to the affected employees concerning this plan.

b. A narrative description of the merit salary plan available to the non-exempt clerical/technical employees. The narrative should identify all the details of the plan. Include a copy of any material provided to the affected employees concerning this plan.

c. A detailed explanation concerning the special transmission and distribution wage adjustment provided to non-union physical employees. Include in this explanation a

discussion of why this adjustment was necessary and how it was implemented. Include copies of any studies or analyses which supported the decision to make the adjustment.

51. Concerning the response to Item 18 of the March 20, 1991 Order, provide the following information:

a. A detailed explanation of how Kentucky Power proposes to flowback to its ratepayers the "protected" and "unprotected" excess deferred federal income taxes resulting from the reduction in the corporate tax rate from 46 percent to 34 percent.

b. An explanation as to whether the "unprotected" excess deferred income taxes should not be amortized over a short period of time.

c. A calculation of the revenue requirements impact of amortizing the "unprotected" excess deferred income taxes over a 5-year period.

52. Concerning the response to Item 24(a) of the March 20, 1991 Order, page 2 of 2, provide an analysis similar to that provided in response to Item 24(b), pages 5 of 25 through 19 of 25 for the conservation advertising expense recorded in Account No. 913, Advertising Expense. Include examples of each type of advertising identified in this response. A copy of the text or script of the TV and radio ads is acceptable for this request.

53. Concerning the response to Item 24(b) of the March 20, 1991 Order, page 3 of 25, identify each of the organizations listed below, explain how Kentucky Power's membership is of direct

benefit to its ratepayers, and why the membership dues should be included for rate-making purposes:

- a. Japan/America Society.
- b. Project 2000.
- c. Dinamo.
- d. Edison Electric Institute ("EEI").
- e. Southern Growth Policies.
- f. Utilities Tele. Council.
- g. Kentucky Center Public Issues.

In addition, identify the 22 other industry associations Kentucky Power paid dues to in the test year and the amount of the test year dues. Provide the same information for these 22 organizations as has been requested for the seven listed above.

54. Concerning Kentucky Power's membership in EEI, provide the following information:

- a. Indicate when Kentucky Power joined EEI.
- b. Indicate whether AEP or the other AEP utilities are members of EEI.
- c. Explain whether Kentucky Power could receive the benefits of membership in EEI if it was not a member but AEP was.

55. Concerning the response to Item 24(b) of the March 20, 1991 Order, pages 5 of 25 through 19 of 25, provide a detailed explanation as to why the following expenses should be included for rate-making purposes:

Account No. 63011/63015 -

- a. Customer Appreciation Days Newspaper Advertising.
- b. Chamber of Commerce Ads.

c. Volunteerism Ads.

Account No. 63012 -

d. System Product Advertising (Heat Pump).

e. Customer Appreciation Days.

f. Open House - Ashland Service Center.

Account No. 63013 -

g. System Product - Heat Pump TV Commercials.

Account No. 63016 -

h. System Product - Heat Pump Commercials.

i. Local Production, Materials, and Labor.

Account No. 63019 -

j. 2600 Employee Pocket Calendars.

Account No. 63021 -

k. 1000 Employee Goals Brochures and 1500 Posters.

Account No. 63022 -

l. Photo Contest Display.

m. Goals Display.

n. Volunteerism Displays.

o. General Labor.

Account No. 63032 -

p. Dedications, Tours, Plants and Office Openings.

Account No. 63033 -

q. Public Opinion Surveys.

Account No. 63034 -

r. Three Speakers Bureau Training, Recognition Sessions and Speakers Fees.

56. Concerning the response to Item 24(b) of the March 20, 1991 Order, pages 23 of 25 through 25 of 25, provide a description of the nature of the expenses listed below, indicating whether the expense is of a recurring nature:

- a. Residential Time of Day Research.
- b. ETS Equipment Sale Charge-Off.
- c. Research, Development and Demonstration.
- d. Company's Portion of Service Corporation Taxes.
- e. System Human Resources Management Development.
- f. Cancellation of Employee Heat Pump Loan.
- g. Load Research Equipment Maintenance Agreement.

57. Concerning the response to Item 24(c) of the March 20, 1991 Order, page 5 of 5, provide a description of the EEI transaction of February 1990.

58. Concerning the response to Item 25 of the March 20, 1991 Order, provide a further description for each of the services provided to Kentucky Power during the test year:

- a. Physical examinations.
- b. Ohio River Ecological Research Program.
- c. Utility Water Act Group.
- d. Speaker - Dealer Meeting.
- e. Speaker - M & CS Meeting.
- f. Coal Combustion Environmental Regs.
- g. Heat Pump Certification.

59. Concerning the response to Item 25, outside services provided, explain whether the test-year expense represents a normal, on-going level of expense. Include in this explanation a

discussion of whether the charges for design work, legal services, and physical examinations represent a recurring level of expense.

60. Concerning the response to Item 28 of the March 20, 1991 Order, page 2 of 2, reconcile the information contained in this response relating to net charge offs to the information provided in Section V, Workpaper S-2, page 3 of 3.

61. Concerning the response to Item 39 of the March 20, 1991 Order, page 2 of 76, provide a detailed explanation as to why Kentucky Power would have incurred research and development expenses internally for nuclear generation when there are no nuclear power plants in Kentucky.

62. Provide a detailed explanation of the research and development undertaken by Kentucky Power related to acid rain and the Clean Air Act Amendments of 1990. Include the costs incurred during the test year and indicate how these costs were accounted for.

63. Concerning the response to Item 41 of the March 20, 1991 Order, page 109 of 109, indicate the status of the union labor contract since the contract term formally ended April 30, 1991. The status of the labor contract should be as of the date of this Order.

64. Concerning the response to Item 46 of the March 20, 1991 Order, page 2 of 2, provide a detailed explanation of what is included in the schedule of company provided benefits that is identified as "Other Benefits - Social & Recreational."

65. The response provided for Item 47 of the March 20, 1991 Order does not adequately satisfy the request. Kentucky Power was

requested to reconcile its net investment rate base and its capitalization, explaining the reasons for any difference. Kentucky Power only provided the mathematical difference between the two items and referenced Cash Working Capital as the primary reason for the difference. The request envisioned a detailed listing of reconciling items which would constitute a thorough reconciliation. With this qualification, provide the reconciliation originally requested in Item 47.

66. Concerning the response to Item 49 of the March 20, 1991 Order, several of the actions taken by Kentucky Power concerning the MAAP recommendations seem to indicate that a cost or expense was incurred during the test year. However, when compared to the response to Item 50, no costs or expenses were indicated for the test year. For each of the MAAP recommendations listed below, indicate whether there were costs or expenses incurred in the test year and describe how these were accounted for:

- a. Recommendation No. 11 - Unit commitment decisions.
- b. Recommendation No. 39 - Reporting of potential cases of unauthorized energy use.
- c. Recommendation No. 44 - Formal risk assessment software tool.
- d. Recommendation No. 45 - Workforce management programs.

67. The response to Item 49 of the March 20, 1991 Order references the development of several systems and programs by or for Kentucky Power. For each of the systems or programs listed below, provide the date development began, the total costs

incurred from the beginning date through the end of the test year, Kentucky Power's accounting treatment for the costs, and the expected date of implementation of the system or program:

- a. MAAP Recommendation No. 5 - PROSCREEN model.
- b. MAAP Recommendation No. 7 - PIMS.
- c. MAAP Recommendation No. 11 - Unit Commitment program.
- d. MAAP Recommendation No. 15 - PROFUEL model.
- e. MAAP Recommendation No. 16 - Management by Objectives program.
- f. MAAP Recommendation No. 20 - T&D Work Management System and Order Processing System.
- g. MAAP Recommendation No. 50 - Employee Information System.
- h. MAAP Recommendation No. 52 - Materials Management System.
- i. MAAP Recommendation No. 54 - Purchasing Cost Savings Program.

68. The response to Item 49 of the March 20, 1991 Order references several studies, reviews, and other analysis performed in response to MAAP recommendations. Provide copies of the studies, reviews, or other analysis referenced in the following MAAP recommendations:

- a. MAAP Recommendation No. 10 - Study and review of the manpower requirements for the marketing activities.

b. MAAP Recommendation No. 12 - Evaluation of the effect of reducing the desired lambda differential for economy energy transactions.

c. MAAP Recommendation No. 29 - Strategic Marketing Plan.

d. MAAP Recommendation No. 30 - Industrial Targeting Study.

e. MAAP Recommendation No. 32 - Analysis supporting Service Corporation recommendation to delay implementation of No. 32.

f. MAAP Recommendation No. 37 - Study to reassess the configuration of company-staffed customer offices.

g. MAAP Recommendation No. 38 - Biannual Quality of Service survey (include copies only of surveys conducted in test year).

69. Concerning the response to Item 49, page 11 of 18, MAAP Recommendation No. 27, provide the following information:

a. The budgeted level of overtime for each operating division during the test year.

b. The monthly analysis comparing actual accumulated overtime with the approved budget for each operating division during the test year.

c. The division manager's variation reports for each operating division during the test year.

70. Concerning the response to Item 49, page 12 of 18, MAAP Recommendation No. 35, provide the results achieved during the test year concerning Kentucky Power's efforts to reduce

unscheduled meter reading overtime to 1 percent of regular hours. Include copies of studies, reports, or analysis performed evaluating these results.

71. Concerning the response to Item 49, page 13 of 18, MAAP Recommendation No. 37, provide an analysis of the company-staffed customer offices. The analysis should contain the following information for each customer office:

- a. The location of the office.
- b. The number of employees assigned to the office, reflecting the five employee classifications, during the test year.
- c. The number of customers served by the office in the test year.
- d. The total fixed costs of the office during the test year.
- e. The total cost of operating the office during the test year.

72. Concerning the response to Item 50 of the March 20, 1991 Order, for each of the MAAP recommendations listed below, provide an explanation of how the test-year costs and the expected future costs were determined:

- a. MAAP Recommendation No. 5.
- b. MAAP Recommendation No. 14.
- c. MAAP Recommendation No. 19.
- d. MAAP Recommendation No. 20.
- e. MAAP Recommendation No. 26.

In addition, explain why adjustments to the test year were not proposed relating to these recommendations.

73. Concerning the response to Item 50, page 2 of 8, MAAP Recommendation No. 7, Kentucky Power has indicated the annual savings for this recommendation to be \$55,000 by 1993. However, the MAAP indicated that annual benefits would be approximately \$185,000. Provide an explanation as to why there is such a difference between these two estimates of annual benefits.

74. Concerning the response to Item 50, page 3 of 8, MAAP Recommendations No. 14 and 15, Kentucky Power has indicated test-year benefits of \$3,918 and \$650,000, respectively. Explain in detail how these benefits have been incorporated into this rate case. Include all calculations and workpapers which support these two amounts.

75. Concerning the response to Item 50, page 4 of 8, MAAP Recommendations No. 17 and 18, Kentucky Power indicated that it could not quantify any benefits from these two recommendations during the test year or expect future benefits through 1993. The MAAPs indicate these recommendations are high priority items, with expected benefits of \$140,000 and \$240,000, respectively. Provide an explanation as to why there appears to be significant delays in realizing the benefits of these high priority recommendations.

76. Concerning the response to Item 50, page 4 of 8, MAAP Recommendation No. 25, Kentucky Power has proposed an expense adjustment related to this recommendation which incorporates test-year savings of \$118,373. In its progress reports, Kentucky Power has indicated that this recommendation should result in annual

savings or benefits of \$730,000. Explain in detail why there is such a significant difference between these two amounts.

77. The rates filed in Kentucky Power's application have been superseded by the rates approved in Case No. 90-362.¹

a. Provide amended, or substitute, tariff sheets which reflect the rates that would have been filed in this proceeding had the rates approved in Case No. 90-362 been effective prior to April 1, 1991.

b. Provide a narrative explanation of the effect that the rate changes approved in Case No. 90-362 will have on the rates proposed in this proceeding.

78. Section III of the application, pages 1 through 121, includes the summary and detail of the comparative billing analyses for the various rate schedules and reflects revenues per books, without system sales revenue, with annualized fuel revenue, with the year-end migration adjustment, with the year-end customer adjustment, and at proposed rates. The following data requests are referenced to this portion of the application.

a. Page 7 of 249 shows per book revenue for the RS-TOD tariff. Provide a detailed explanation for how the test-year billing determinants were derived for this new, experimental tariff that was not in effect during the test year.

¹ Case No. 90-362, An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of Kentucky Power Company from November 1, 1988 to October 31, 1990, Orders dated April 3, 1991 and April 24, 1991.

b. Pages 4, 6, and 8 of 249 show the calculation of the employee rate discounts on the RS, RS-LN-TOD, and RS-TOD tariffs. For each page, explain the differences between the number of bills included in the revenue calculation under standard charges and the number of bills included in the revenue calculation under employee charges. Also, provide a detailed explanation for why Kentucky Power believes ratepayers should bear the cost of employee discounts.

c. Pages 11 and 12 of 249 show per book revenue for the GS-Mining and GS-Other tariff classifications. For each page, explain the differences between the billing determinant KW demands shown in Column 2 and the metered KW demands shown in Column 5.

d. Pages 14 and 15 of 249 show per book revenue for the LGS and MW tariffs. For each page, explain the differences between the billing determinant KVA demands in Column 2 and the metered KVA demands shown in Column 5.

e. Pages 16 and 17 of 249 show per book revenue for the QP and CIP-TOD tariffs. For each page, explain the differences between the billing determinant KW and KVAR demands in Column 2 and the metered KW and KVAR demands shown in Column 5.

f. Page 20 of 249 shows per book revenue for the IRP tariff. Explain the difference between the billing determinant KVAR demand in Column 2 and the metered KVAR demand in Column 5.

g. Page 96 of 249 shows revenue at year-end customer-adjusted levels for the QP Tariff while page 116 of 249 shows revenue at proposed rates for the QP Tariff. Explain, in detail,

the differences in KW and KVAR billing determinants shown on these two pages.

79. Section V of the application, Schedule 4 and Workpaper S-4, include the summary and detail of the proposed rate case adjustments. A number of these adjustments are sponsored by company witness E. K. Wagner. The following data requests are referenced to these adjustments.

a. System sales profit has been adjusted to \$11.32 million as shown on Exhibit EKW-1; Kentucky Power's five-year average for system sales profit is \$11.27 million as shown on Exhibit EKW-2. Explain why a five-year average was chosen for purposes of comparing the proposed adjustment, and provide a schedule showing a ten-year average for Kentucky Power for 1981 through 1990.

b. Workpaper S-4, page 19, and Exhibit EKW-5 show the adjustment for miscellaneous service charges of \$74,043. Explain why this adjustment, which reflects the proposed increases in service charge rates, is included in test-year normalized operating revenues (adjusted PSC jurisdiction) shown on Schedule 4, page 1.

c. Workpaper S-4, page 20, and Exhibit EKW-7 show the adjustment for CATV revenues of \$95,735. Explain why this adjustment, which reflects the proposed increase in CATV pole attachment rates, is included in test-year normalized operating revenues (adjusted PSC jurisdiction) shown on Schedule 4, page 1.

d. Workpaper S-4, page 27, and Exhibit EKW-9 show the adjustment to eliminate the test-year over-recovery of fuel cost

in the amount of \$266,307. Explain whether the change in Kentucky Power's base fuel rate subsequent to the filing of its application will have any impact on this adjustment or whether the only impact would be to change the base revenue and FAC revenue components that make up the total fuel revenue shown on Exhibit EKW-9 (Columns 11 through 15). Include calculations and workpapers as needed.

80. The testimony and exhibits of witness L. R. Jahn address the migration adjustment, the year-end customer adjustment, the allocation of the proposed decrease, and the proposed rate design and tariff changes, which are included in Sections III and V of the application. The following data requests are referenced to these topics as addressed by Mr. Jahn.

a. Jahn's testimony, at pages 2 and 3, describes the migration adjustment as related to approximately 300 commercial and industrial customers which changed rate schedules during the test year. Verify or explain whether those rate classes shown in Section III, page 81 of 249, with a positive or negative amount in the difference column (Column 4) are the only classes affected by this adjustment.

b. Jahn's testimony at page 7 and Exhibit LRJ-2 address the allocation of the proposed revenue decrease. Explain the reasons for reducing each rate class's positive subsidy by an equal percentage as opposed to reductions being directly tied to the differences in class rates of return.

c. Jahn's testimony at page 11 addresses the proposed residential storage water heating provision. Describe the type of

water heating systems which would qualify for this provision and explain the selection/derivation of the storage capacity levels and related KWH usage included on lines (a), (b), and (c).

d. A number of the proposed tariffs (RS, RS-LM-TOD, RS-TOD, SGS, MGS, MGS-TOD, LGS, QP, CIP-TOD, and IRP) include, under special terms and conditions, a provision for customers with cogeneration or small power production facilities. Explain the reasons for this provision and also explain why in tariffs RS-LM-TOD, RS-TOD, SGS, MGS-TOD, and LGS the provision requires customers to take service under Tariff COGEN/SPP I or II while in the remaining tariffs the provision states that customers may also take service under Tariff COGEN/SPP I or II.

e. Pages 11 and 13 of Jahn's testimony address the proposed LM-TOD rates. For the LM-TOD off-peak rates, explain the selection of 5 mills as the appropriate mark-up over the average class energy revenue requirement.

f. For the SGS-LM-TOD provision, the MGS-TOD tariff, and the LGS-TOD provision, provide detailed cost analyses in support of the respective proposed service charges of \$15.10, \$11.60, and \$81.80 per month.

g. The proposed QP tariff includes on-peak and off-peak demand provisions. Provide the derivation of the proposed on-peak and off-peak demand charges with cost analysis and narrative explanation as needed.

h. Mr. Jahn discusses the proposed changes to the IRP tariff, beginning on page 17 of his testimony. Provide ECAR Document No. 2, "Daily Operating Reserve" mentioned by Mr. Jahn

and explain whether a change in Document No. 2 or a change in Kentucky Power's operating conditions is the reason for proposing the requirement that interruptible load must be reduced within 10 minutes.

i. On page 19 of his testimony, Mr. Jahn discusses the proposed provision to limit capacity available under Tariff IRP. Provide the ECAR guidelines referenced by Mr. Jahn which specify the maximum amount of interruptible capacity that may be used to satisfy daily operating reserve requirements.

81. The following questions relate to the cost-of-service study presented in M. S. Berndt's testimony.

a. Explain fully why a 12-CP methodology is used to allocate demand-related plant and expenses to retail classes in the cost-of-service shown in Exhibit MSB-1, instead of the Time-of-Day ("TOD") methodology used by the company and approved by the Commission in Case No. 9061. Include in your explanation a discussion of current conditions and circumstances which make an allocation of demand-related costs based on each class's average contribution to the 12 monthly system peaks more appropriate than one based on the entire system load shape.

b. Was a TOD methodology performed for comparison purposes or otherwise during the preparation of Berndt's cost-of-service testimony and exhibits? If yes, provide all workpapers and exhibits associated with the TOD methodology. If no, explain why a TOD allocation methodology was not performed as an alternative or comparison to the 12-CP methodology.

c. Compare the strengths and weaknesses of the 12-CP and TOD allocation methodologies.

d. Provide a detailed description of and total costs associated with each load research program and computer facility either instituted or installed by the company which enabled it to perform the TOD allocation methodology in the cost-of-service study presented in Case No. 9061.

e. Provide a detailed description of the derivation of each allocation factor shown on Exhibit MSB-1, pages 49-60. Provide all workpapers, calculations, and data used in each derivation.

f. Is Mr. Berndt aware of the widely used and accepted cost-of-service practice of bifurcating certain distribution plant costs into demand and customer components, recognizing that a minimum size distribution system, whose costs are related to the number of customers served instead of the demand imposed on the system, is necessary in order for a utility to serve its customers? Has Kentucky Power ever performed a cost-of-service study in which the costs related to distribution poles, conductors, and transformers have been divided into demand and customer components by use of a zero-intercept, minimum system, or some other methodology? Was such an analysis performed for comparison purposes or otherwise during the preparation of the cost-of-service study presented in this case? If yes, provide all workpapers and exhibits associated with this procedure. If no, explain why such an analysis was not performed.

82. In his direct testimony, Mr. Berndt discusses the proposed modifications in Kentucky Power's COGEN/SPP tariffs as shown in Section III, pages 164-169, of the application. The following questions relate to these modifications:

a. Explain the reasons for reducing the present 20 metering charges down to 4 monthly metering charges.

b. Exhibit MSB-2 shows the derivation of the proposed meter charges using the forecasted year ended December 31, 1991. Explain why the forecasted year was used, provide a modified MSB-2 using the 1990 historical test year, and provide the derivation of the fixed cost and O&M components of the annual carrying charge rate.

c. On page 12 of his testimony, Mr. Berndt describes the estimation of Kentucky Power's avoided cost of energy. Explain why the period 1991-1996 was used in the production cost simulations.

d. Provide a complete description of the production cost simulation model and process used to estimate avoided energy costs, including, but not limited to, a description of all assumptions and input data sets used.

e. Exhibit MSB-3 shows estimated avoided energy costs for the years 1991-1996. Explain why only 1991 estimated avoided energy costs are included in the energy credits in the proposed COGEN/SPP tariffs and explain whether Kentucky Power intends to update these energy credits annually in order to incorporate the current year's avoided energy costs.

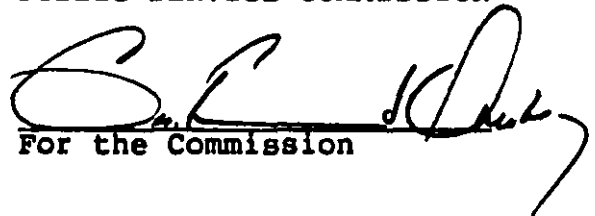
f. Mr. Berndt's testimony at pages 14-15 and Exhibit MSB-4 address the proposed capacity credits. Explain the decision to use a three-year historical average in the development of the proposed capacity credits as opposed to some other historical average or a forecasted approach as used for the energy credits.

g. Mr. Berndt's testimony at page 15 states that the three-year historical average on-peak capacity credit is representative of the current trend and level of sales performance. Is this sales trend expected to continue? Explain.

h. Describe fully the market conditions that have contributed to the current trend and level of sales performance. Are these market conditions expected to persist? Explain.

Done at Frankfort, Kentucky, this 10th day of May, 1991.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director